

Refer to important disclosures at the end of this report

Cleaner book, stronger earnings

CMP	Target Price
Rs 293 as of (5/8/2018)	Rs 392 (■) 12 months
Rating	Upside
BUY (■)	33.8 %

- ICICIBC comfortably beat our estimates reporting Rs10.2bn net profit in an operationally challenging Q4FY18. We expected Rs1.9bn net profit.
- While we have not been surprised on core income (NII marginally higher), the entire profit beat has been on account of softer NPL provisioning requirement due to a strong recovery performance. NPL reductions were c.50% of slippages (Rs157bn) in Q4FY18.
- A significant portion of slippages (Rs150bn+) came from known stressed assets leading to a decline in the bank's watchlist to Rs49.8bn. Outstanding stressed loans have now declined to 2.6% of net advances (Rs134bn).
- Business performance continued to be robust with a 15% yoy growth in domestic credit led by retail loans (21% yoy). The bank management sounded confident in continuing the growth path and improving profitability to touch 15% consolidated RoE in Q1FY21E.
- ICICIBC Q4FY18 performance was an indicator of the bank's ability to absorb asset quality shocks. We reiterate our 'BUY' recommendation with a PT of Rs392.

- NIMs improve after a dip:** ICICIBC NIMs improved 10bps qoq to 3.24% while the domestic NIMs improved 14bps qoq to 3.67%. The marginal beat on NII (3.4%) a) reflected this improvement, b) as well as the more robust retail loan composition, and c) the recoveries in some non-accrual accounts. ICICIBC management expects NIMs to consolidate at lower levels in 1HFY19 and thereafter improve. Overall, we believe, on a sustainably lower CASA level (45-47% vs. 52% currently), NIMs are likely to follow the trajectory guided by the management.
- Clearer trajectory for asset quality:** After some confusion created by the likely impact of RBI Feb'18 circular, ICICIBC's Q4FY18 results confirmed popular expectations that stress would most emerge from identified pool of stress assets. With a significant decline in its drilldown list in Q4FY18, which otherwise had stayed mostly stable and unchanged since few quarters, the trajectory for asset quality has become clearer. We expect the cumulative slippages in FY19E-FY20E to be lower than FY18.
- Robust business guidance:** ICICIBC's domestic loan book has continued to show sustained momentum with retail gaining stronger traction. While the management has guided to sustain the 15% yoy growth achieved in FY18, we believe the likelihood of exceeding the target exists, especially with the strong Tier 1 capitalisation that ICICIBC has.
- Reiterate 'BUY', retain PT at Rs392:** We continue to value ICICIBC on FY19E BV. Reiterate 'BUY'. Our revised FY19E/FY20E BV Rs181/Rs207 discount the target price 2.2/1.9 respectively. Key upside risk to earnings shall be a) stressed assets resolution, b) stronger loan growth.

Change in Estimates

EPS Chg FY19E/FY20E (%)	8.6/21.5
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY19E	FY20E
Emkay	23.7	27.9
Consensus	16.9	23.5
Mean Consensus TP (12M)	Rs 372	

Stock Details

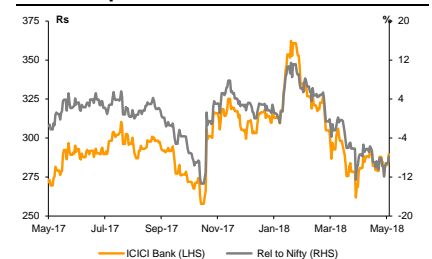
Bloomberg Code	ICICIBC IN
Face Value (Rs)	2
Shares outstanding (mn)	6,429
52 Week H/L	366 / 255
M Cap (Rs bn/USD bn)	1,884 / 28.05
Daily Avg Volume (nos.)	211,80,760
Daily Avg Turnover (US\$ mn)	92.3

Shareholding Pattern Mar '18

Promoters	-%
FIIIs	36.5%
DIIIs	31.5%
Public and Others	32.0%

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	(12)	(6)	8
Rel. to Nifty	1	(14)	(9)	(6)

Relative price chart


Source: Bloomberg

Financial Snapshot (Standalone)

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net income	3,65,471	4,12,418	4,05,215	4,29,211	4,71,798
Net profit	97,263	98,011	67,627	1,51,724	1,79,049
EPS (Rs)	16.7	16.8	10.6	23.7	27.9
ABV (Rs)	127.2	123.1	116.3	139.3	170.4
RoA (%)	1.4	1.3	0.8	1.7	1.8
RoE (%)	11.6	10.7	6.8	13.9	14.4
PE (x)	17.5	17.4	27.8	12.4	10.5

Source: Company, Emkay Research

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

Ravikant Bhat
 ravikant.bhat@emkayglobal.com
 +91-22-266242430

Himanshu Taluja
 himanshu.taluja@emkayglobal.com
 +91-022-66121248

Exhibit 1: Actuals vs Estimates

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	1,17,003	1,24,661	98,196	-6.1	19.2	NII in-line, net income miss due to lower treasury gains
PPOP	75,140	84,911	77,283	-11.5	-2.8	Net income miss reflected in PPOP miss
PAT	10,200	1,929	10,608	428.9	-3.8	Strong NPA recovery performance reflected in lower provisions

Source: Company, Emkay Research

Valuation and view

Our FY19E BV discounts the target price 2.2x and is at par with the median 1-year forward P/ABV multiple in trailing 12 years. ICICIB's target price includes Rs101/share contributed by the bank's stake in its non-banking subsidiaries and other equity investments. We have based the general insurance and securities business valuation based on current market cap while the life insurance valuation is based on our price target for the same.

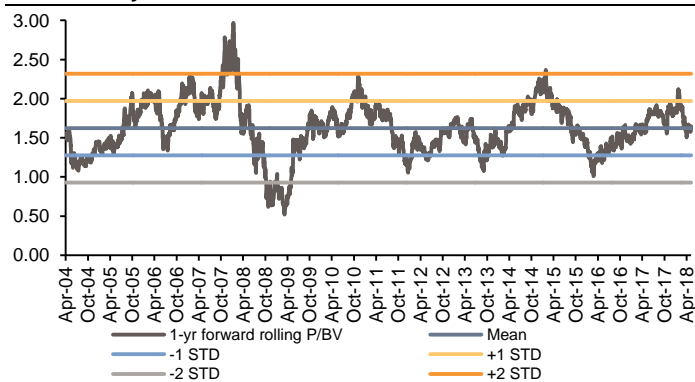
Key investment highlights for ICICIB shall continue to be a) Strong liability franchise and continuing incremental shift in loan mix towards retail assets and better rated corporates thereby improving the core operating metrics of the bank, b) strong capitalization levels provide cushion to take stressed assets into NPL recognition and ability to take higher provisioning, and c) declining levels of net stress.

Exhibit 2: SOTP

Entity	Value	Stake	Value for ICICIB	Value per share	Methodology
	Rs.bn.	%	Rs.bn.	Rs.	
ICICI Bank Standalone	1,860	100		291	1.6x FY19E P/BV
ICICI Pru Life Insurance	651	55	358	56	1x FY20E EV and 23.4x FY20E VNB
ICICI General Insurance	352	56	197	31	Current m-cap
ICICI Pru AMC	122	51	62	11	4.5% of QAAUM
Others				30	
Value of subsidiaries / associates				126	
Less: Holding company discount				25	
Value post discount				101	
SOTP value				392	

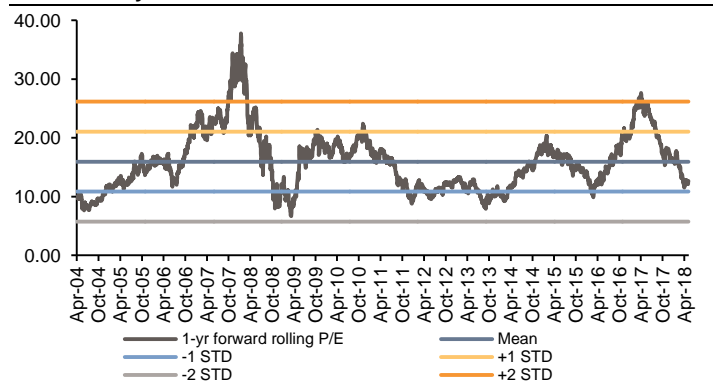
Source: Company, Emkay Research

Exhibit 3: 1-yr forward P/BV trades at the mean value



Source: Company, Emkay Research

Exhibit 4: 1-yr forward P/E trades at -1 STD



Source: Company, Emkay Research

Exhibit 5: Revision in earnings estimates

Y/E Mar (Rs mn)	FY19E			FY20E		
	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	289,609	271,665	-6.20	309,477	299,533	-3.21
PPOP	270,917	264,723	-2.29	280,297	292,118	4.22
PAT	139,747	151,724	8.57	147,789	179,049	21.15
EPS (Rs)	21.8	23.7	8.57	23.0	27.9	21.55
BV (Rs)	181	181	0.16	200	207	3.54

Source: Company, Emkay Research

Exhibit 6: Quarterly results summary

Y/E: March (Rs.mn.)	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)	FY18	FY17	YoY (%)
Interest earned	1,42,644	1,35,685	5.1	1,36,654	4.4	5,49,659	5,41,563	1.5
Interest expended	82,427	76,064	8.4	79,601	3.6	3,19,400	3,24,190	(1.5)
Net interest income	60,217	59,622	1.0	57,053	5.5	2,30,259	2,17,373	5.9
Non-interest income	56,786	30,172	88.2	31,669	79.3	1,74,196	1,95,045	(10.7)
Operating income	1,17,003	89,794	30.3	88,721	31.9	4,04,455	4,12,418	(1.9)
Operating expenses	41,863	38,674	8.2	38,144	9.8	1,57,039	1,47,551	6.4
-Staff expenses	15,262	14,805	3.1	13,626	12.0	59,140	57,337	3.1
Operating profit	75,140	51,120	47.0	50,578	48.6	2,47,415	2,64,867	(6.6)
Non-tax provisions	66,258	28,982	128.6	35,696	85.6	1,73,070	1,52,081	13.8
Profit before tax	8,882	22,138	(59.9)	14,882	(40.3)	74,346	1,12,786	(34.1)
Taxes	-1,318	1,892	(169.7)	-1,621	(18.7)	6,571	14,775	(55.5)
Tax rate (%)	(14.8)	8.5	-	(10.9)	-	8.8	13.1	-
Profit after tax	10,200	20,246	(49.6)	16,502	(38.2)	67,774	98,011	(30.9)
Extraordinary inc.	0	0	0.0	0	0.0	0	0	0.0
Normalised PAT	10,200	20,246	(49.6)	16,502	(38.2)	67,774	98,011	(30.9)

Source: Company, Emkay Research

Conference call takeways

Growth

- Target (sustainable) CASA 45% and retail deposit >70%.
- Grow domestic loans +15% yoy and retail >20% yoy, business banking 35% yoy, personal loans 40% yoy, and mortgages 15% yoy.
 - Growing unsecured retail loans primarily to existing customers.
 - Loan mix Q4FY20E: Retail loans >60%, overseas loans <10%
 - New approach to corporate lending
 - Hard limits to group and individual companies and are substantially lower than permissible regulatory
 - Consolidated RoE target of 15% by Q1FY21E (Jun'20).
 - Credit cost: 80-100bps normalised credit cost of average loans (baked in the 15% consolidated RoE).

Asset quality

- Rs4.84bn sale of NPAs for 100% cash consideration
- Upgrades in Q4FY18
 - Sugar account sold to an international company.
 - Gas based power company due to demerger of plant and gas terminal.
 - Both accounts contributed to the significant Rs42.3bn recoveries and upgrades in Q4FY18.
- Q4FY20E target NNPA ratio: 1.5%
- PCR: >70% by Mar'20 including TWO (technical and prudential write-offs).
- Expect NPA additions to be significantly lower in FY19E.
- Impact of resolution of stressed assets needs to be closely monitored.

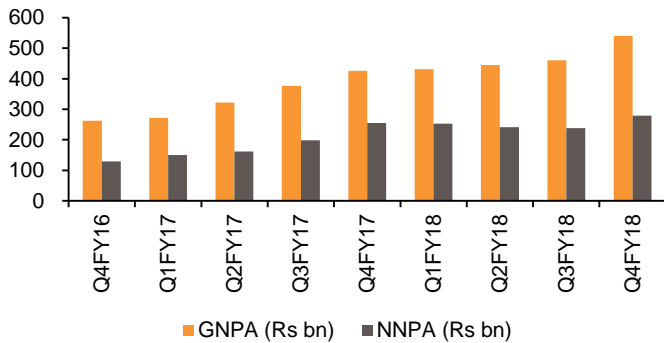
Earnings

- Loan yield improvement in Q4FY18E (+11bps qoq to 8.4%): in part due to collections in non-accruing loans (post-Q4FY18, these comprise mostly of GNPA's).
- NIM: 3.24% (+10bpq qoq), domestic NIM 3.67% (+14bps qoq), international NIMs 4bps.
- Near term pressure on NIMs likely due to a) continued shift towards MCLR, b) reduction of base rate. Expect improvement in NIMs in 2HFY19E.
- Targeting double digit fee income, growth to be driven by retail fees (Q4FY18 retail fee growth 16% yoy, >75% fees contributed by retail).
- Expect income growth to be better going forward while continuing to have control on costs (cost-income ratio can improve)
- Provisions to stay elevated though lower yoy in FY19E.
- Tax rate in FY19E shall normalise upwards

Asset Quality: Almost a final clean-up...

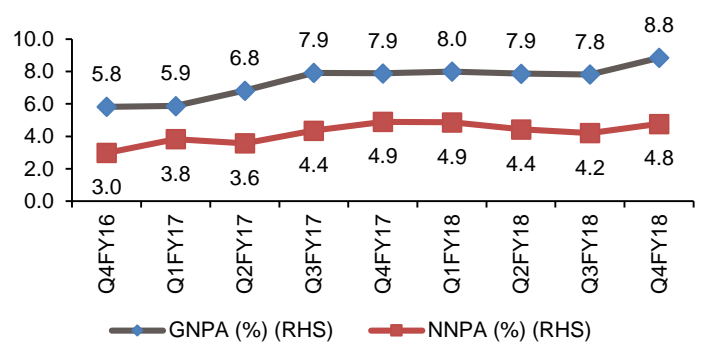
ICICIB moved closer to a full clean-up of stressed assets with most of Q4FY18 mortality coming from known stressed assets pool. The bank's drilldown list (watchlist) declined 75% qoq to Rs47bn (Exhibit 9). The drilldown list contributed c.75% of the total Rs157.4bn slippages in Q4FY18. The residual pool of stressed assets (excluding NNPA) now stands at 2.4% of net advances (Rs133.6bn, Exhibit 11). The bank expects provisioning to stay 'elevated' in FY19E as ageing provisions catch up. Nevertheless, with incremental additions to NPAs expected to stay meaningfully lower, provisions on fresh slippages should decline contributing to decline in provisions.

Exhibit 7: Steep slippages in Q4FY18 push up GNPA stock



Source: Company, Emkay Research

Exhibit 8: NPAs may have seen final sharp spike in Q4FY18



Source: Company, Emkay Research

Exhibit 9: Movement of drill-down exposures

Drilldown list (Rsbn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Opening Balance	440.7	387.2	324.9	275.4	190.4	203.6	195.9	190.6
Net Increase/(reduction) in exposure	(3.7)	(16.77)	(21.23)	(5.93)	2.59	(9.60)	-4.86	-8.39
Upgrades to 'investment grade'	(4.2)	-	1.11	(5.63)	-	-	(0.08)	(0.09)
Downgrades to 'below investment grade'	-	-	-	6.36	14.20	4.48	6.49	0
Classified as 'non performing'	(45.6)	(45.55)	(29.43)	(79.76)	(3.59)	(2.56)	(6.83)	(122.52)
Non fund downgraded to NPA from drilldown list	-	-	-	-	-	-	-	(12.34)
Closing Balance	387.2	324.9	275.4	190.4	203.6	195.9	190.6	47.3
Change (% qoq)		(16.1)	(15.3)	(30.9)	6.9	(3.8)	(2.7)	(75.2)

Source: Company, Emkay Research

Exhibit 10: Bulk of the slippages from drill-down list

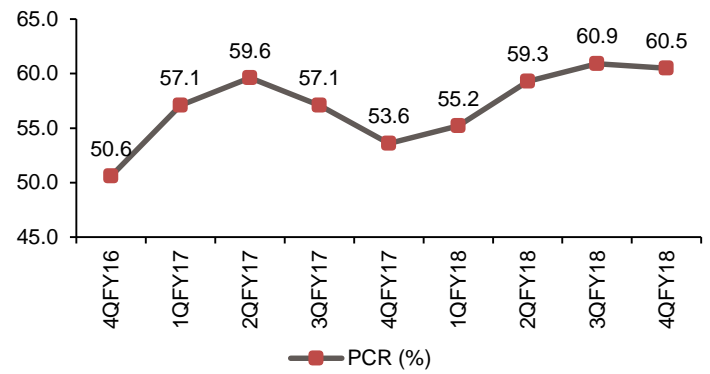
Movement of Slippages (Rs bn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Corporate & SME Slippages	76.1	73.9	66.1	108.5	41.0	40.1	35.9	150.3
% of total Slippages	92.2	92.0	93.9	96.1	82.3	85.9	81.9	95.5
-Slippages from restructured assets	13.2	12.3	2.4	18.0	14.8	3.7	2.0	3.3
-drilldown	45.6	45.6	29.4	79.6	3.6	2.6	6.1	117.8
-loans to central PSU owned company	0.0	0.0	0.0	0.0	0.0	8.8	0.0	0.0
-Existing NPA non-fund devolvement	0.1	0.9	18.0	0.4	2.0	2.2	1.5	6.6
-Loans under RBI resolution schemes	0.0	0.0	0.0	0.3	1.1	1.9	20.2	8.8
-slippages outside the above list	17.2	15.1	16.3	10.2	19.5	21.0	6.1	14.0
Retail Slippages	6.4	6.4	4.3	4.4	8.8	6.6	7.9	7.1
% of total Slippages	7.8	8.0	6.1	3.9	17.7	14.1	18.1	4.5
Total Slippages	82.5	80.3	70.4	112.9	49.8	46.7	43.8	157.4

Source: Company, Emkay Research

Exhibit 11: Stressed loans portfolio

(Rs bn)	Q4FY18
Net NPAs	278.9
Gross Restructured loans	16.0
Drill-down list	47.3
Other loans under RBI schemes	21.7
Non-fund o/s to restructured loans	4.0
Non-fund o/s to NPAs	29.8
Non-fund o/s to borrowers where S4A implemented	15.0
Total stress loans	412.5
Stressed loans as % of total loans	8.1
O/s Security Receipts	34.4

Source: Company, Emkay Research

Exhibit 12: PCR remains at +60% and is expected to improve further

Source: Company, Emkay Research

Loan growth picking up stronger momentum

Though the overall loan growth was 10% yoy, contributed by a decline in overseas loan book, the domestic franchise continued to gain momentum. Domestic loan book expanded 15% yoy led by a strong 21% yoy growth in retail loans. Retail loans now constitute c.57% of the bank's overall loan book. With its new strategy of 'preserve, change, and grow', as briefly presented by the bank management, we expect growth to get prominence going forward.

Exhibit 13: Retail loan mix continuously improving

(Rsbn)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	QoQ (%)	YoY (%)	Comp.
Business	8,567	8,735	9,033	9,228	9,543	9,503	9,814	10,228	10,734	4.9	12.5	-
Deposits												
Savings	1,342	1,382	1,469	1,654	1,718	1,700	1,785	1,859	2,010	8.1	17.0	35.8
Current	589	531	584	666	750	681	684	748	890	19.0	18.6	15.9
Term deposits	2,283	2,327	2,438	2,333	2,432	2,482	2,518	2,568	2,711	5.6	11.4	48.3
Total	4,214	4,241	4,491	4,653	4,900	4,863	4,986	5,174	5,610	8.4	14.5	100.0
Advances												
Retail	2,028	2,085	2,176	2,237	2,405	2,474	2,588	2,739	2,900	5.9	20.6	56.6
SME	187	180	195	210	223	209	208	248	256	3.5	15.0	5.0
Corporate	1,197	1,276	1,258	1,299	1,267	1,244	1,313	1,359	1,322	(2.8)	4.3	25.8
Overseas	940	953	913	828	747	715	719	708	646	(8.8)	(13.6)	12.6
Total	4,353	4,494	4,543	4,575	4,642	4,641	4,828	5,054	5,124	1.4	10.4	100.0

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net interest income	2,12,240	2,17,373	2,30,503	2,71,665	2,99,533
Other income	1,53,231	1,95,045	1,74,712	1,57,546	1,72,265
Fee income	76,928	81,049	90,154	1,01,279	1,13,792
Net income	3,65,471	4,12,418	4,05,215	4,29,211	4,71,798
Operating expenses	1,26,836	1,47,551	1,57,246	1,64,488	1,79,680
Pre provision profit	2,38,635	2,64,867	2,47,969	2,64,723	2,92,118
PPP excl treasury	1,96,053	1,76,728	1,89,950	2,35,713	2,61,658
Provisions	1,16,678	1,52,081	1,73,654	79,693	68,306
Profit before tax	1,21,957	1,12,786	74,315	1,85,030	2,23,812
Tax	24,694	14,775	6,688	33,305	44,762
Tax rate	20	13	9	18	20
Profit after tax	97,263	98,011	67,627	1,51,724	1,79,049

Balance Sheet

Y/E Year End (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Equity	11,632	11,651	12,817	12,817	12,817
Reserves	8,57,482	9,57,375	10,12,628	11,49,408	13,13,512
Net worth	8,97,356	9,99,511	10,55,929	11,92,709	13,56,813
Deposits	42,14,257	49,00,391	56,18,148	64,48,413	74,06,799
Borrowings	17,48,074	14,75,562	16,10,877	15,37,260	15,91,026
Total liabilities	72,06,951	77,17,914	86,29,685	94,78,615	106,79,841
Cash and bank	2,71,061	3,17,024	5,64,251	4,32,073	5,88,377
Investments	18,84,780	18,56,191	21,28,910	23,96,606	26,62,365
Loans	43,52,639	46,42,321	51,33,996	58,26,733	65,88,414
Others	2,95,075	3,84,219	2,87,306	3,02,672	3,21,128
Total assets	72,06,951	77,17,914	86,29,685	94,78,615	106,79,841

Key Ratios (%)

Y/E Year End	FY16	FY17	FY18E	FY19E	FY20E
NIM	3.3	3.1	3.1	3.2	3.2
RoA	1.4	1.3	0.8	1.7	1.8
RoAE	11.6	10.7	6.8	13.9	14.4
GNPA (%)	5.8	8.7	10.0	9.0	7.9
NNPA (%)	3.0	5.4	5.5	4.6	3.6

Per Share Data (Rs)	FY16	FY17	FY18E	FY19E	FY20E
EPS	16.7	16.8	10.6	23.7	27.9
BVPS	149.4	166.3	160.0	181.4	207.0
ABVPS	127.2	123.1	116.3	139.3	170.4
DPS	5.0	0.0	1.5	2.0	2.0

Valuations (x)	FY16	FY17	FY18E	FY19E	FY20E
PER	17.5	17.4	27.8	12.4	10.5
P/BV	2.0	1.8	1.8	1.6	1.4
P/ABV	2.3	2.4	2.5	2.1	1.7
Dividend Yield (%)	1.7	0.0	0.5	0.7	0.7

Source: Company, Emkay Research

Growth (%)	FY16	FY17	FY18E	FY19E	FY20E
NII	11.5	2.4	6.0	17.9	10.3
PPOP	21.0	11.0	(6.4)	6.8	10.3
PAT	(13.0)	0.8	(31.0)	124.4	18.0
Loans	12.3	6.7	10.6	13.5	13.1

Quarterly (Rs mn)	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
NII	59,622	55,898	57,091	57,053	60,217
NIM(%)	3.6	3.3	3.3	3.1	3.2
PPOP	51,120	51,833	69,865	50,578	75,140
PAT	20,246	20,490	20,582	16,502	10,200
EPS (Rs)	3.48	3.19	3.21	2.57	1.59

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-17	Jun-17	Sep-17	Dec-17	Mar-18
Promoters	-	-	-	-	-
FII	34.9	35.0	34.5	35.9	36.5
DII	30.2	30.4	31.8	31.8	31.5
Public and Others	34.8	34.6	33.7	32.3	32.0

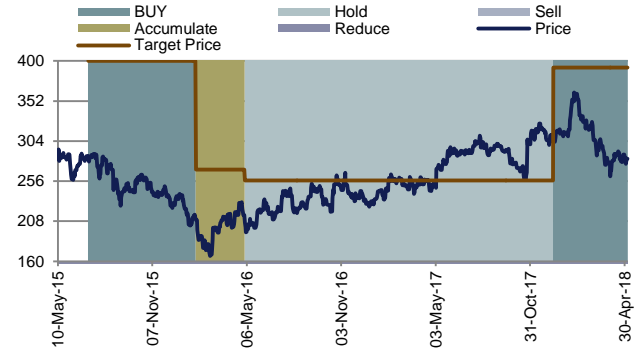
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
14-Dec-17	304	392	12m	Buy	Ravikant Bhat
02-May-16	206	257	12m	Hold	Sohail Halai
31-Mar-16	215	270	12m	Accumulate	Sohail Halai
29-Jan-16	209	270	12m	Accumulate	Clyton Richard
11-Jan-16	218	400	12m	Buy	Clyton Richard
02-Nov-15	254	400	12m	Buy	Clyton Richard
02-Nov-15	254	400	12m	Buy	Clyton Richard
05-Oct-15	255	400	12m	Buy	Clyton Richard
16-Sep-15	248	400	12m	Buy	Clyton Richard
31-Jul-15	275	400	12m	Buy	Clyton Richard
07-Jul-15	284	400	12m	Buy	Clyton Richard

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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Dissemination Date:

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

SINGAPORE**DBS Bank Ltd**

Contact: Janice Chua
12 Marina Boulevard, Marina Bay Financial Centre Tower 3
Singapore 018982
Tel. 65-6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E

THAILAND**DBS Vickers Securities (Thailand) Co Ltd**

Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Nagkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
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Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel. 62 21 3003 4900
Fax: 62 21 3003 4943
e-mail: research@id.dbsvickers.com



Ravikant Bhat, MBA

ravikant.bhat@emkayglobal.com

+91-22-266242430